

## Trade, Politics, and Democratization: The 1997 Global Agreement between the European Union and Mexico

José Antonio Sanahuja

*Journal of Interamerican Studies and World Affairs*,  
Vol. 42, No. 2, Special Issue: The European Union  
and Latin America: Changing Relations (Summer,  
2000), pp. 35-62.

### *Abstracts*

---

#### *Toward a Biregional Agenda for the Twenty-first Century*

In the wake of the 1999 Rio Summit and its focus on biregional cooperation, this article reviews the background and development of European-Latin American relations over the past two decades, the political and economic context, the current state of transatlantic links, and the short-term prospects for the relationship. Among its several premises is that the EU and Latin America constitute the bulk of the West, and the ways they work together will therefore condition the role of each of them on the international stage.

#### *Trade, Politics, and Democratization: The 1997 Global Agreement Between the European Union and Mexico*

Mexico and the European Union signed a new Political and Economic Association Agreement in December 1997 and ultimately a free-trade agreement in March 2000, aiming to establish a new model of relations with a more dynamic trade and investment component. This article analyzes the 1997 agreement as background to the final accord. Economic and political changes in the 1990s modified both parties' participation in the international political economy, helping to overcome some of the structural obstacles to the relationship. The policy toward Latin America adopted by the EU in 1994 was influential. The negotiation process revealed divergences over the scope of the liberalization process and the so-called democracy clause.

#### *The European Union as a "Global Civilian Power": Development Cooperation in EU-Latin American Relations*

The European Union's attempts to strengthen ties with Latin America relate to a broader international strategy of demonstrating that it is a "global player" and attaining the image of a "civilian power." Yet many observers suspect that European aid is simply instrumental to trade and investment promotion and other interests. They question whether the EU's strong position as a donor in Latin America means that Latin America is strongly important to the EU. This article reviews the history, context, and latest trends in EU aid to Latin America, then looks at the prospects for a biregional partnership.

# ***Trade, Politics, and Democratization: The 1997 Global Agreement Between the European Union and Mexico***

***José Antonio Sanahuja***

---

Mexico and the European Union signed a Political and Economic Association Agreement on December 8, 1997, after two years of talks and a difficult negotiation process. The agreement provides for an institutionalized political dialogue based on mutual respect for democracy and human rights, creates a framework to negotiate the liberalization of trade in goods and services as well as investment flows, and calls for reinforced economic cooperation. The agreement may promote more dynamic trade and investment relations between Mexico and the EU, as the "association" proposed by the agreement constitutes an attempt to overcome the somewhat stagnant relations of the last 20 years.

The traditional, asymmetrical relations were limited to the provision of European development assistance; even after signing the first cooperation agreement in 1975, both parties had only a "dialogue of the deaf" (Durán 1992, 14). It was not possible to deal with the sensitive issues or strategic interests at stake. For the then European Economic Community (EEC), relations were limited by Mexico's political situation and investment protection regime. For Mexico, the main problems were trade barriers and access to the European market.

With the various global, regional, national, and subnational changes in the 1990s, the position of both parties in the international political economy has shifted significantly. These shifts have helped them to overcome some of the structural obstacles in their relationship, and ultimately it led, for the first time, to an explicit commitment to democracy and reciprocal trade liberalization, the free-trade agreement signed on November 24, 1999, as this article was being prepared. The new agreement, ratified March 23, 2000 and slated to take effect July 1, 2000, covered all trade-related matters included in the global agreement.

Globally, the most important transformations have been the process of economic globalization, competition for markets and capital flows, and the multilateral liberalization process led by the General Agreement on Tariffs and Trade Uruguay Round Agreements and the World Trade Organization after 1994. Regionally, the most important changes were the establishment of the North American Free Trade Agreement and, in the EU, enlargement and deepening. The latter has included the creation of the European Monetary Union (EMU) and a Common Foreign and Security Policy (CFSP) and, within this framework, the launching of a new strategy

for relations with Latin America. In national and subnational dynamics, important features are the processes of liberalization and privatization initiated by the Mexican authorities, which accelerated after the peso crisis of December 1994. In the EU, they are the process of corporate internationalization and the member states' growing private and public orientation toward emerging markets, including those of Latin America.

This article examines the significance of the 1997 agreement in light of these changes, assessing its potential for strengthening ties between the EU and Mexico. It analyzes the development of the relationship between 1975 and 1995 with a special focus on trade, investment flows, and development assistance, as well as the evolving institutional framework. It examines EU policy toward Latin America after 1994, placing the relationship with Mexico in the wider context of the EU's strategic objectives in the region. It evaluates the negotiation process between the EU and Mexico, paying special attention to the disputes or divergences that emerged over the nature of the agreement, the scope of liberalization, and the inclusion of the so-called "democracy clause" guaranteeing democratic practices and observance of human rights.

### **THE 1970s AND 1980s: AN ASYMMETRICAL, NON PREFERENTIAL RELATIONSHIP**

The first institutional contacts between the EEC and Mexico in the 1970s were the product of the Mexican government's active foreign policy and its aim to diversify foreign relations (Ojeda 1986; Arrieta 1996, 124). At the same time, incipient EEC development cooperation policy helped to institutionalize contacts with the signature of the so-called Framework Agreement on September 16, 1975, which remained in force for 15 years. This agreement's primary aim was to expand trade, as other similar "first generation" agreements with Argentina, Brazil, and Uruguay between 1971 and 1974 had done. It generated high expectations but amounted to nothing more than a "nonpreferential" agreement, whereby both parties gave one another Most Favored Nation (MFN) status. In practical terms, the agreement led only to trade promotion activities (Ashoff 1989, 61). The only mechanism for institutionalized dialogue it established was a Joint Commission of a technical nature.

The agreement's limited impact was a consequence of Mexico's nationalistic development strategy and Third World foreign policy orientation and of the EEC's protectionism, which peaked in the 1970s. Thus Mexico's expectations of preferential access to the ECC market were thwarted, because the EEC was not prepared to reduce trade barriers or to abolish preferences conceded to the "associated" countries of Africa, the Caribbean, and the Pacific (ACP). Mexican exports were subject to the Generalized System of Preferences (GSP) established unilaterally by the EEC in 1971. At the same time, EEC hopes for greater access to Mexican natural resources, particularly petroleum, were dashed. The Mexican

authorities repeatedly called for the inclusion in the GSP of products that the Community considered sensitive and thereby subjected to quotas, tariffs, and other barriers. The Community did not agree to these petitions and, arguing that Mexico did not take full advantage of the GSP, the European Commission simply proposed meetings between entrepreneurs and training courses instituted to promote the "better use" of the GSP. It also extended economic cooperation to new fields, such as energy, science and technology, and tourism (Durán 1992, 12).

The other aim of the agreement was to achieve "the highest and most balanced trade relation possible." Between 1975 and 1980, Mexican exports, dominated by petroleum, grew the most, but the country did not manage to eliminate its chronic trade deficit with the ECC until the 1980s. According to Mexico, EEC protection barriers were the main cause of the imbalance; but the limited diversification of Mexican exports and the anti-export bias of its development policy were also to blame.

At the joint Commission meeting of 1979, both parties agreed that the aims of the agreement had not been met. Frustrated with the agreement's limited results, the Joint Commission did not meet for the next four years. When meetings resumed, in the early 1980s, Mexico's external vulnerability as a result of the debt crisis had created a climate of better mutual understanding. This atmosphere favored a more pragmatic Mexican foreign policy position, while Mexico's participation in the Contadora Group to deal with the Central American crisis facilitated a political convergence with Europe. After 1981, furthermore, Mexico's trade balance with Europe grew positive, reaching a historic surplus of US\$3.033 million in 1984. This favorable situation lasted until 1989, sustained not only by rising exports to Europe but by falling imports from the EEC as a result of the drastic adjustment measures adopted to confront the economic crisis.

Another important change was the diversification of Mexican exports to the EEC. Between 1984 and 1989, the share of petroleum and petrochemicals fell from 85 percent to 49 percent, and exports of manufactured goods increased. In this context, Mexican demands for greater trade access lost force; more emphasis was placed on cooperation in energy, trade, investment promotion, and science and technology. Between 1979 and 1984, Community aid to Mexico was ECU\$2.2 million, but between 1985 and 1989 it rose to ECU\$33 million. The positive results of increased trade promotion and business cooperation programs, the creation of the Mexico-European Union Business Council, and the inauguration of a European Commission Representative Office in Mexico City were recognized at the 1989 Joint Commission meeting. It was also agreed that a new agreement was necessary to take account of the various new forms of cooperation that had been initiated since, but had not been contemplated by, the 1975 agreement.

### **THE 1991 AGREEMENT: "ADVANCED COOPERATION"**

The signing of a new Framework Agreement with Mexico was part of the

process of renovation of EEC development cooperation policy toward Latin America (Arenal 1993, 241). It was given added impetus by the liberalization policies initiated by President Carlos Salinas de Gortari and European fears of losing market share as a result of NAFTA (Grabendorff 1991). A new agreement also fit Mexico's new pragmatic foreign policy and liberalizing economic strategy. In the mid-1980s, the Mexican authorities initiated an ambitious program of unilateral trade liberalization within the framework of structural adjustment policies, trying to improve Mexico's global economic position. This policy could only succeed over the long term if Mexican exports gained access to new markets.

The 1991 agreement expanded development assistance, but the political, trade, and investment realms changed barely at all. The new agreement was similar to the so-called third-generation agreements the EEC signed with most Latin American countries and subregions in the early 1990s. These agreements included a democracy clause, or a commitment to the "democratic foundations of cooperation" (IRELA 1997, 13-15; Arenal 1997, 123). Such a clause was not included in the agreement with Mexico, however. The Mexican government believed that this kind of clause constituted an unacceptable unilateral imposition, contrary to Mexico's noninterventionist constitutional foreign policy. The clause was also considered a threat to the delegitimized Mexican political system after the massive electoral fraud of 1989 (*El País* 1994).

The agreement also failed to address other traditionally sensitive themes, such as the Mexican export access to the EEC. The Community was unable to persuade Mexico to abandon its traditional position regarding investment protection; the agreement called for actions to "improve the investment climate" established through national legislation and bilateral agreements, to which Mexico subscribed only after 1995. In terms of trade, the 1991 agreement was even more limited than its predecessor. Although it reaffirmed MFN Status, this clause had become redundant, as Mexico was by then a member of GATI (Sberro 1996, 230). Because the agreement was still "nonpreferential", furthermore, the GSP still applied to Mexican exports. The agreement provided for economic cooperation activities, including entrepreneurial meetings, trade fairs, information exchange, quality regulations, and cooperation in science and technology; yet it failed to include any commitment to the reduction or elimination of trade barriers. In sum, the 1991 agreement did not attempt to modify the structural conditions of trade relations.

Mexico's foreign trade is characterized by a strong dependence on the United States, which, in 1995, received 83 percent of Mexico's exports and originated 74 percent of its imports. The EU has been Mexico's second-largest trade partner since 1994, with 11.5 percent of total imports and 4.5 percent of exports. The Mexican market, however, ranked 20th in EU exports and 29th in imports. In 1994, Mexico absorbed 23 percent of the Latin American export market of the EEC, after Brazil, with 24 percent.

Since 1995, the Mexico's participation has ranged between 13

percent and 16 percent because of the peso crisis. As a supplier of the EEC, Mexico has lagged even further behind. Between 1990 and 1994, Mexico was the origin of 10 percent of Community imports from Latin America, third after Brazil, with 35 percent, and Argentina, with 12 percent. As far as the structure of trade is concerned, over the last few years Mexican exports have become more diversified and the share of primary goods has diminished (Cervantes 1996, 181). The percentage of manufactured goods in total Mexican exports to the EEC surpassed 20 percent in 1986 and rose to 53 percent in 1993. Oil and natural gas exports shrank from 75 percent in 1975 to 23 percent in 1993. Community exports to Mexico have mainly consisted of high added-value products. Of the 54 percent in capital goods, 23 percent are manufactured goods, 13 percent are chemical products, and 7 percent are processed food products. The automobile sector has had significant weight. In 1995, 10 percent of the imports and 9 percent of Mexican exports to the EU were cars, engines and car parts. The auto sector is characterized by the importance of interindustrial trade and of direct European investment. Hence, interfirm trade constitutes 39 percent of Mexican imports from of the EU (Chacón 1996, 180).

After Mexico's economic recovery, trade asymmetries and the unbalanced pattern of exchanges increased. Between 1990 and 1995, EU exports to Mexico grew by 64 percent, from US\$5.284 million to US\$8.224 million (see table 1). Mexican exports to the EU diminished during this period by 18 percent, from US\$3.875 million to US\$3.169 million. By contrast, Latin American exports to the EU, headed by the Southern Common Market (MERCOSUR), grew 19 percent. As a result, the Mexican deficit with the EU reached US\$5.127 million in 1994, intensifying the balance-of-payment crisis that contributed to the December 1994 peso crisis.

It is important to note that the financial crisis and the ensuing peso devaluation, which notably increased the competitiveness of Mexican exports, produced only short-term changes and did not alter the structural trade imbalances (Pérez Herrero 1997, 115-17; 1998, 13). Thus, although the deficit declined to US\$1.690 million in 1995, in 1997 it had rose again

Table 1. EU-Mexico Trade, 1990-1997 (in US\$ millions)

	Exports to EU	Imports from EU	Balance
1990	3.875	5.284	-1.409
1991	3.776	6.401	-2.625
1992	3.799	7.751	-3.952
1993	2.934	7.190	-4.256
1994	3.147	8.274	-5.127
1995	4.059	5.749	-1.690
1996	3.867	6.389	-2.522
1997	4.355	8.284	-3.929

Note: Figures represent 15 member states.  
Source: IMF 1998.

to almost US\$4.000 million, and in the first ten months of 1998 it reached US\$6.200 million (IRELA 1998b, 2).

The sustained increase in trade should not obscure both partners' significant decline in market share. Between 1990 and 1997, the EU's share in Mexican exports fell from 13.3 percent to 3.6 percent of the total. Imports fell during the same period from 17.4 percent to 9.0 percent. By contrast, as a direct result of NAFTA, the U.S. share in Mexican exports rose from 69.3 percent to 85.6 percent, and from 66.1 percent to 74 percent in terms of imports, increasing Mexico's trade dependence on the United States.

For Mexico, the unfavorable evolution of trade and the rising deficit with the EU were not only a product of trade diversion arising from NAFTA. Also important were the temporary and extraordinary trade preferences the EU granted to Andean Community and Central American competitors, trade barriers induced by the formation of the Single European Market (SEM), and particularly strict European quality regulations, which reinforced traditional EEC protectionism (see Auboin and Laird 1997). Trade diversion caused by the new association between the EU and the Mediterranean countries and, above all, the countries of Central and Eastern Europe was also significant (Mujal-León 1995, 153).

Among the causes explaining the fast growth of EU exports to Mexico was the competitive position of European products, partly a result of devaluation caused by the 1992 and 1993 "monetary storms" in Europe. Also important were Mexico's unilateral trade liberalization and the growth of internal Mexican demand for finished goods, as well as for intermediate and capital goods because of NAFTA and an overvalued exchange rate (Chacón 1996, 168-72).

The relative importance of each one of these factors is difficult to determine, and the topic drew controversy during the negotiation of the 1997 agreement. The new GSP adopted in 1995, moreover, may have aggravated the situation. Under the new system, tariff preferences expire for certain products of the more advanced developing countries, so that the principle inspiring the reform (gradual preferences) penalizes the relatively more advanced developing countries. In 1994, Mexico was the eleventh world and third Latin American beneficiary of the GSP. (It is paradoxical that Mexico benefits from the GSP although it is an OECD member.) If trade is not liberalized between the two sides, steel and some Mexican agricultural products will be excluded from the benefits of the GSP in the short run, making access to the EU market even more difficult (Chacón 1996, 181-83; ALADI 1998, 29-37).

Mexico has been a traditional destination for European foreign direct investment (FDI). The dynamism of its economy in the 1960s and 1970s



and the size of its market favored a significant volume of such investment, despite the restrictions deriving from nationalist development policies. With the debt crisis, the flow of FDI declined, but liberalization after 1989 attracted a significant part of new financial flows going to the "emerging markets" of Asia and Latin America (Gurría 1995a). Between 1990 and 1995, Mexico received US\$30.3 billion in FDI, which represents a third of that received by all of Latin America during this period (IRELA 1996, 48). In 1995, the Mexican Secretary of Trade and Industrial Development (SECOFI) registered 2,859 firms operating with EU capital, the equivalent of 23 percent of the 12,261 businesses established with foreign investment in Mexico. In 1,909 of these businesses, EU investors retained a majority of shares.

The reform of the regulatory framework for foreign investment and the privatization program facilitated the return of European investment to Mexico. In 1989, the Salinas administration reformed the stricter dispositions of the Foreign Investment Law of 1973. In 1993, a new law eliminated most restrictions still in effect. Although sectors such as oil and gas, basic petrochemicals, electricity generation, and ports and airports were re-served for the state, others, like media, internal transport, and gas distribution, were either totally or partially reserved for national capital investment. The EU is the second source of FDI in Mexico, with an accumulated stock in 1995 of US\$11.227 million, or 20 percent of total FDI. The United States comes first with US\$33.346 million, or 59 percent of total FDI.

Encouraged by more favorable conditions, EU FDI flows to Mexico between 1990 and 1995 tripled in comparison with the previous five-year period. Compared with Latin American regional free-trade areas, however, Mexico was not the first destination of EU FDI to Latin America, receiving only 15 percent of the total over the same period, in comparison to 49 percent for MERCOSUR and 21 percent for the Andean Community (IRELA 1996, 63).

The peso crisis led to a temporary deterioration in the investment climate, and FDI flows fell in 1995 to 25 percent. As the crisis was gradually overcome, however, exports recovered. The peso crisis also helped to speed up structural reforms and privatization. The National Development Plan of 1995-2000 has provided for the privatization of airports, ports, and petrochemical plants. In "magnet" sectors for FDI, there was rapid deregulation (*Economist* 1995). Between 1995 and 1996, the Mexican Congress liberalized the long-distance telephone service, satellite communications, the railroads, and airport transportation, and allowed the private sector to build, operate, and own systems of transportation, storage, and distribution of natural gas. The privatization of secondary petrochemicals was also accelerated, opening new investment opportunities for foreign oil and chemical companies.

NAFTA has provided an additional incentive for EU investors; with it Mexico has reinforced its role as an "export platform" to the larger U.S.

and Canadian markets. Expectations of market growth in Mexico and of exports to Mexico's NAFTA associates, as well as strict rules of origin established by NAFTA for key sectors of European FDI, such as automobiles, have promoted new investment flows from EU companies.<sup>2</sup> Mexico can also potentially become an export platform for other Latin American countries with which it has signed free trade agreements. It is important to note, however, that NAFTA grants more favorable conditions to U.S. investors than to those of the EU. The new Foreign Investment Law codifies many of the guarantees included in NAFTA, but NAFTA provides additional guarantees for U.S. and Canadian FDI that are not available to EU competitors (Marshall 1996, 3).

Given the long absence of a real dialogue on trade and investment, European Community aid was for a long time the key material expression of EU-Mexico relations. Aid levels, however, show that Mexico has not been a priority in this regard.<sup>3</sup> Financial commitments with Mexico rose from ECU\$32.2 million between 1985 and 1989 to \$74.1 million between 1990 and 1995. Despite the increase, Mexico's low participation in European assistance to Latin America did not change. Mexico received 3.2 percent of commitments to the region between 1990 and 1996, far behind Central America and the Andean area, which are traditional priority areas. Cuba, the only country in the region with which the EU has not signed a cooperation agreement, has levels similar to Mexico's. Mexico's mere size indicates the inadequacy of assigned funds. In per capita terms, Mexico is the country that received the least assistance in 1990-95: 0.8 ECU per capita in contrast with 1.1 ECU for Brazil, 1.8 for Argentina, 8.7 for Chile, and the regional average of 5.5 ECU.

From a qualitative point of view, however, cooperation with Mexico is a singular model in the Latin American context. It is a model of advanced economic cooperation based on the promotion of trade and investment, which responds to the demands of developing economies that are relatively more advanced and have a greater capacity for insertion in the global economy. This can be attributed partly to Mexico's efforts and the importance it has attached to private enterprise. Between 1990 and 1996, economic cooperation represented 69 percent of total cooperation flows, development assistance 23 percent, and environmental cooperation and humanitarian assistance 4 percent each (see European Commission Delegation in Mexico 1995).

Economic cooperation has focused on promoting business opportunities in sectors of mutual interest, such as agribusiness, fishing, textiles, automobiles, tourism, pharmaceuticals, plastics, and furniture. It led to the creation in 1989 of the Mexico-European Union Council, composed of high-level Mexican and European entrepreneurs, and the establishment November 1993 of the Chambers of Commerce of the European Union in Mexico (EUROCAM). It has also led to the creation of the Cooperation Program on Norms and Certification, which attempts to improve the quality of Mexican exports and involves an active

participation of the private sector; and of a technical assistance program to promote Mexican exports to the EU.

Investment promotion activities have been developed primarily by the European Community Investment Partners (ECIP) and AL-INVEST programs, while cooperation programs have been set up in the fields of science and technology as well as energy. Most international development assistance has been devoted to the Guatemalan refugees and to programs cofinanced with nongovernmental organizations, centering on areas of high social impact, such as the fight against poverty, agriculture and rural development, education, health, sanitation, and demographics. NGOs have also played an important role in environmental issues and in the distribution of humanitarian assistance, which began after the 1995 uprising of the National Liberation Zapatista Army (EZLN) in the state of Chiapas.

## **THE 1990s: NEW LIBERALIZATION STRATEGIES**

Despite progress in some areas after the 1991 agreement, by 1994 changes in the international system and in both regions had rendered those relationships, and the "third-generation" agreements in particular, obsolete (Arenal 1996; IRELA 1997, 151-54; Purcell and Simon 1995, 39-49). At the beginning of 1994, the EU presented Latin America with the possibility of trade liberalization for the first time, through diplomatic initiatives by some member states, European Commission proposals, and a formal proposal by the European Parliament in April (European Parliament 1994). The most important changes leading to this shift were the culmination of the GATT Uruguay Round, the reactivation of regional integration processes in Latin America, the development of the CFSP, the completion of SEM, and the establishment of a common currency in Europe, as well as changes in trade and investment flows between both regions (Sotillo 1992; Arenal 1993; Klaveren 1994; Aldecoa 1995; Purcell and Simon 1995).

The GATT Uruguay Round agreements of 1994, which constitute an ambitious liberalization calendar for 1995-2010, have important implications for relations between the EU and Latin America. The agreements clear up uncertainty prevalent in the 1980s and early 1990s about the future of the international trade system. It now seems clear that regionalism and multilateralism are complimentary and not mutually exclusive strategies. As a result, national strategies have been readjusted to ensure favorable positions in the global economy, such as adopting subregional liberalization agreements.

One of the effects of multilateral liberalization has been to reduce the ACP countries' preference within the EU's preference hierarchy. Thus, liberalization has reduced the costs of extending preferences to other countries or areas such as Latin America. The growth of exports and the large European trade surplus has also reduced the cost of an eventual liberalization. This may be counteracted, however, by trade diversion effects caused by the integration processes in the MERCOSUR and Chile

as well as in Mexico within NAFTA, leading to a reduction of market quotas for the EU. In addition, European investors will receive less favorable treatment compared with third parties such as the United States, which wants to establish by 2005 a Free Trade Area of the Americas (FTAA) to include the entire region. For the European Commission, this constitutes one of the main arguments for proposing the establishment of a new generation of agreements with Latin America (European Commission 1994, 1995a, 1995b, 1995c). The EU's new policy for Latin America can therefore be considered a strategic response to the FTAA. For Latin America, the European option is also strategically valuable. It represents a diversifying option and gives the countries of the region a counterweight against the strong influence of the United States, thus widening the margin of negotiation within the FTAA.

The renovation process of EU-Latin American relations was initiated in 1994 (Marín 1994). In the document outlining the new strategy, the EU points out that "the development of trade and investment will continue to be the cornerstone in the relations with our associates of Latin America and the Caribbean" (Council of the European Union 1994, point 9). It proposes strengthening political dialogue based on a mutual commitment to democracy and human rights, and the establishment of more diversified cooperation relations that can respond to the region's varying needs.

The aim is to establish an "association" based on the third-generation agreements already in force, as well as to establish free trade agreements with the most dynamic subregions and countries, known as "fourth-generation agreements." Hence the call by the European Council in December 1994 for the European Commission to initiate negotiations with Mexico and Chile. The fourth-generation agreements are based on the principles of reciprocity and common interest. They attempt to establish a political and economic association that has an "interregional" character, in the case of MERCOSUR. Relations are based on the democracy clause, and focus on three basic elements: an institutionalized political dialogue, a gradual and reciprocal liberalization of trade and investment, and advanced economic cooperation. These are "framework agreements" insofar as they do not provide for liberalization in themselves, but instead establish guidelines for the gradual development of trade relations through subsequent negotiations.

The agreements institute regular political dialogue at different levels: between heads of state, ministers, government officials, and members of parliaments. The dialogue is meant to cover issues of common interest of a bilateral nature, as well as global matters. It aims to allow the EU and its various interlocutors in Latin America to harmonize positions within the framework of the CFSP. Advanced economic cooperation applies to those areas already covered by the third-generation agreements, especially regarding business cooperation, increasing investment, transportation, energy, telecommunications, the environment, and science and technology. In the case of MERCOSUR, cooperation for regional

integration is also included.

The gradual and reciprocal liberalization of exchanges to foment the growth and diversification of trade is to be carried out in accordance with WTO rules, keeping in mind the sensitivity of certain products. Thus, for the first time, there is a possibility of an opening that surpasses the GSP or the temporary and extraordinary tariff preferences accorded to the Andean and Central American countries. Although there are no concrete commitments with regard to the scope and calendar of liberalization, the possibility of starting negotiations has raised high expectations in Latin America. At the same time, the absence of concrete plans permits the EU to avoid discussing sensitive sectors, such as services and investment, which require agreement among all 15 EU member states.<sup>4</sup>

During the second half of 1995, while Spain held the EU presidency, the pursuit of these agreements was given renewed impetus. The EU-MERCOSUR Framework Agreement was the most visible result of these efforts. Signed in December 1995, it established an "association" based on political dialogue and the liberalization of trade with the aim of creating a biregional free trade area by the year 2005, in accordance with WTO norms, and a strategy favoring "open regionalism" (European Council 1996a). The next agreement of this kind was signed with Chile in June 1996 (European Council 1996b). The Mexican agreement of 1997, however, includes specific commitments for trade liberalization; thus it differs significantly from the preceding two and can be considered a "fifth-generation" agreement. The importance of trade, investment, and economic interests in the EU-Mexico agreement contrasts openly with the renovation in 1996 of EU policy toward the Andean Community and the Central American Countries contrasts openly with the renovation in 1996 of EU policy toward the Andean Community and the Central American Countries. This policy was limited to political dialogue, a nonpreferential trade regime, and development aid, all in the framework of the obsolete "third-generation" agreements granted to both regions in preceding years. In brief, a new "selective strategy" toward individual countries and subregions has emerged in the EU-Latin America relationship (Torres-Rivas 1994, 98-99; Sanahuja 1996, 13-15).

## **THE NEED FOR A NEW AGREEMENT**

The financial crisis of December 1994 strengthened Mexico's traditional position as "a country of multiple memberships that requires selective and flexible alliances" (Chen 1996, 152) in order to diversify its external links. Although it pursued the NAFTA negotiations, Mexico did not renounce diversification; it is negotiating liberalization agreements with Colombia and Venezuela, associates of the "Group of Three"; and with Chile, Bolivia, Central America, and members of the Association of Caribbean States.

The diversification strategy is part of the National Development Plan 1995-2000 and the Industrial and Foreign Trade Policy Program of SECOFI. According to the latter, foreign trade negotiations are essential to diversify

exports, attain a 20 percent rate of annual growth in exports, and raise foreign investment. This policy aims to achieve reciprocity of market access, but through a gradual opening on the part of Mexico (SECOFI 1996, 491). According to Finance Secretary José Angel Gurría, the trade agreement with the EU is a top priority for diversification and the establishment of a counterweight to U.S. trade influence. In his view, the Pacific Basin is still not a tangible alternative, and Latin America is more of a competitor than a source of diversification (Gurría 1995b, 295).

Conditions of reciprocity are especially important in the European case because of Mexico's unilateral liberalization since the mid-1980s, which, according to the Mexican authorities, has given European exporters an unfair advantage (Santamaría 1996). Reciprocity of access would ease and neutralize the negative effects of trade barriers arising from the SEM, the growing competition from Eastern Europe, and the new GSP.

The Mexican ambassador to the EU, Manuel Armendáriz, noted that the Mexican government hoped to "sign a true free trade agreement with the European Union, whose economic and trade dimensions would entail much more than the third generation agreement signed in 1991" (Excelsior 1996b). The new agreement should establish a precise calendar of liberalization, immediate in some areas and gradual in others, recognizing existing asymmetries and Mexico's unfavorable position. Mexican negotiators felt that a fourth-generation agreement like those signed with Chile and MERCOSUR in 1995 and 1996 lacked a concrete commitment to trade liberalization. As a result, the "only tangible result" of signing such an agreement would be granting economic assistance and delaying "the process toward a true free trade agreement" (González Bejarle 1996).

For the EU, Mexico represents a market of almost 90 million consumers. It is an important trade associate and, above all, an export "platform" to the U.S. and Canadian markets. According to Mexican estimates, trade liberalization with Mexico would allow for an increase of around US\$5 billion in EU exports to NAFTA. The EU also believes that a new agreement would allow it to retain its market share and consolidate its position in Mexico, thus confronting trade diversion caused by NAFTA (European Commission 1995a, 12). Mexico is immersed in various liberalization schemes with other countries of Latin America, and will be a key associate in the FTAA, which can accentuate trade diversion effects. A poll published in 1995 by the European Commission Delegation in Mexico revealed that European companies in Mexico in fields such as telecommunications, automobiles, chemicals, pharmaceuticals, textiles, and footwear felt that their competitive position would be adversely affected by NAFTA (European Commission Delegation 1995, 11-13).

The EU also worries about the unfavorable position in which, without an agreement, its companies would operate compared with NAFTA-origin companies in fields such as telecommunications, financial services, insurance, and investment. The investment regime is especially important considering Mexico's ambitious program of privatization. The

EU and its member states perceive that a new agreement could contribute to an improvement in both areas.

On investment issues, Mexico's traditional position is changing. At least this is what the Reciprocal Protection and Promotion of Investment Agreements indicates, which Mexico signed with Spain and Switzerland in 1995. In addition, there are ongoing bilateral negotiations with Germany, Belgium, France, the United Kingdom, Italy, and the Netherlands for new agreements of this kind. Mexico's participation, as a member of the OECD, in the negotiation of the Multilateral Agreement on Investment (MAI) also indicates that its investment policy will change.

NAFTA, moreover, makes no distinction between companies of its members in terms of public contracts, which results in disadvantages for EU suppliers of services. With regard to intellectual property rights, NAFTA's protection regime is superior to that of the WTO. Thus there is a risk that Mexican trade protection will increase, as the tariffs that Mexico imposes on EU exports are inferior to those agreed on within the WTO. Finally, the EU wanted to sign a fourth-generation agreement and not a full free trade agreement because the former would permit the establishment of liberalization calendars at a later stage, as well as the creation of exclusion lists for sensitive products, thus making the agreement politically feasible.

## **NEGOTIATING THE 1997 AGREEMENT: THE DEMOCRACY CLAUSE**

In May 1995 the European Council, the European Commission, and the Mexican government signed a Joint Solemn Declaration establishing the three pillars of a future agreement. First, it called for a reinforced, high-level political dialogue. Second, a framework for investment and trade in goods and services, including gradual and reciprocal liberalization according to WTO rules, bearing in mind the sensitive nature of certain products. Finally, it called for the intensification of economic cooperation. The declaration served to assure the respective markets and demonstrate EU commitment to the Mexican economy in the wake of the peso crisis (*El País* 1996).

EU member states differed, however, regarding the scope and content of trade liberalization and the agreement itself. At the Council of Ministers of General Issues in February 1996, Spain and the United Kingdom, with the support of Sweden and Luxembourg, favored an agreement leading to a free trade area through a "single-phase" negotiating process. France, Portugal, and Austria were opposed to free trade and a possibly indiscriminate liberalization process and proposed deferring this through a "two-phase" negotiation similar to that used with MERCOSUR. France claimed that free trade, particularly in the agriculture and livestock sector, could hurt the Common Agricultural Policy (CAP) and preferences

granted to the ACP countries. French resistance also stemmed from fears that the agreement with Mexico would serve as a model for future agreements and would open up the agricultural and livestock sector-not sensitive in the Mexican case, but certainly in the case of MERCOSUR or South Africa (*Europe Information Bulletin* 1996a). The Italian presidency of the EU failed to reach an agreement or an intermediate solution, and the negotiation guidelines returned without approval to the Committee of Permanent Representatives of the Member States (COREPER) for reconsideration.

In April 1995, the European Commission made public a study that revealed that the sensitive products for the EU and its associates would affect only between 10 and 11 percent of total Mexican exports and could be excluded from the agreement without breaking the WTO rules. In June 1995, following an impasse provoked by the British veto over the "mad cow" disease crisis, the Council of Ministers agreed to the definite guidelines for negotiation. Negotiations were to be carried out on a sector-by-sector basis and had to involve both the member states and the Commission, as services fall under the jurisdiction of the member states and decisions require unanimity, while those concerning trade in goods require only a qualified majority and can be taken by the Commission. Because Mexico had signed various free trade agreements, the Committee also had to deal with rules of origin. The Council of General Issues, meeting in May 1996, ultimately arrived at a compromise on the negotiation guidelines. Given the resistance of Denmark, France, Holland, and Portugal, the goal was a gradual and reciprocal liberalization, slower than that initially proposed by Spain and the United Kingdom (*Europe Information Bulletin* 1996b; Miguel and Montalbán 1996b).

Visible divergences between Mexico and the EU also emerged at a technical meeting in October 1996 regarding the negotiation method, the content of trade liberalization, and the democracy clause. Regarding the negotiation method and the content of the agreement, Mexico preferred a "global and simultaneous" process covering the three areas (political dialogue, trade liberalization and economic cooperation), undertaken by a joint committee. The European Commission, on the other hand, wanted to negotiate economic cooperation and an institutional framework first and, in a second round, trade liberalization. In effect, the EU was proposing an agreement similar to those signed with MERCOSUR and Chile, but the Mexican delegation claimed that the Solemn Declaration provided for an immediate free trade negotiation that differed from the so-called fourth-generation agreements (Armendáriz 1997). The Commission accused Mexico of advocating the NAFTA model and warned that trade liberalization would require a long and difficult negotiation, given European preoccupations with the single currency, enlargement to the east, and the reform of key EU policies. Thus, in the Commission's view, the most viable option would be to sign a framework agreement rapidly and later focus on trade liberalization (*El Economista* 1996).



The democracy clause had already constituted an obstacle to the 1991 agreement. Again in 1995, the initial Mexican position, which had wide domestic support, considered the clause a "unilateral imposition" and an "unacceptable condition." This attitude was especially strong among the more conservative sectors of the Institutional Revolutionary Party (PRI) and the government. An editorial in the Mexican daily *Excelsior* of October 14, 1996, declared that the democracy clause was "humiliating" and typical of "a relationship of domination" also exemplified by the Helms-Burton Law (*Excelsior* 1996a).

Mexico's rejection of cooperation in the realm of democratization and human rights promotion revealed its extreme sensitivity to the issue. In 1996 the Mexican representative in Brussels succeeded in keeping the European Commission from cofinancing a US\$320,000 project, Services for Peace 1997-1997, promoted by the National Mediation Commission (CONAI) to facilitate a dialogue between the government and the EZLN (*Proceso* 1996). In January 1997, Mexico tried to block final approval of EU financing of electoral observers from the Mexican Academy of Human Rights (AMDH), an independent NGO that had already received Community funding. According to Mexico, the Commission had not undertaken the pertinent consultations and the 1991 agreement did not extend to the political arena, such that the grant constituted "an unacceptable interference" in internal Mexican affairs (*Proceso* 1997a, b). The deeper question at stake, however, which even the Mexican government recognized, was how to handle the debate about the democracy clause.<sup>5</sup>

For the EU it was important that the new association with Mexico be based explicitly on democratic principles, respect for the rule of law, and human rights. In 1991, the position of the then EEC had been different, as development policy and the Common Security and Foreign Policy (CSFP) had not evolved to the same extent (Barahona de Brito 1996). Between 1992 and 1995, the democratic base of cooperation had acquired a solid legal foundation. New EC rules about economic assistance to developing countries, passed in 1992, include an express commitment to "democratic conditionality" (European Council 1992). Meanwhile, the Treaty of the European Union, in force since November 1993, makes the promotion of democracy one of the three main objectives of EU development policy (see article 130U).

In May 1995 the Council of Ministers of General Issues stated that all EU agreements should include standard democracy clauses in accordance with a proposal of the European Commission of May of the same year (European Commission 1995e). The proposal states that the clauses must be accompanied by an "application clause," whereby one party has to consult the other before adopting punitive measures, but that in cases of "special urgency" one side can adopt unilateral measures without previous consultation (Moreno 1996, 32). The legitimacy crisis of the Mexican political system, continued human rights violations, and the situation of

impunity in Mexico made this clause highly problematic. The European Parliament, on which the final approval of the agreement depends, has shown a special concern with these problems. The EP deems that economic liberalization has not been accompanied by democratization of state structures or a more equal distribution of wealth and economic power, nor has it reduced the dynamics of exclusion and poverty that affect a large part of the population. For the EP, the inclusion of this clause was nonnegotiable, and the agreement had to be conditioned by its strict observance (European Parliament 1995, 1998, 1999; *Proceso* 1996b).

In November 1996 Mexico proposed a "two-phase" negotiation and accepted the inclusion of the democracy clause, but insisted that the clause's reciprocal character should be explicitly recognized and rejected any "unacceptable unilateral supervision." It stated, furthermore, that the clause should be worded differently from the standard clause and should be negotiated before, or simultaneously with, a trade agreement (*Proceso* 1996c; *Excelsior* 1997b). In April 1996 a compromise was reached. Mexico formally accepted the democracy clause according to the formula used in other agreements, which states that respect for democratic principles and fundamental rights as enunciated in the Universal Declaration on Human Rights should inspire the domestic and international policies of both parties and constitute an essential element of the agreement. Mexico, however, managed to delete the reference to domestic policies and, with European Commission negotiators' agreement, replace it with a unilateral Mexican declaration enunciating the constitutional principles governing foreign policy, including nonintervention.

In April 1997 the Council of Ministers approved a negotiation method that, without deviating from guidelines already approved, included part of Mexico's proposals. Negotiations took place between that date and June 11, when, after a 48-hour marathon, both sides reached a final agreement outlined in three interrelated documents. The first was the Agreement on Economic and Political Association and Cooperation, also known as the Global Agreement. It included the democracy clause and established an institutional framework for political dialogue. It stated that both parties aimed toward "bilateral and preferential, gradual and reciprocal liberalization of trade of goods and services, in conformity with WTO norms and taking into account the sensitivity of certain products and service sectors." This transcended the fourth-generation agreements signed with Chile and MERCOSUR, which aimed only to "foment the increase and diversification of trade and to prepare their ulterior progressive and reciprocal liberalization" and did not include a calendar for liberalization. The agreement with Mexico established a Joint Council integrated by the European Commission, the EU member states, and Mexico that would decide the calendar and content of the liberalization of trade in goods and services, the movement of capital and payments, and the opening of public procurement markets. The Joint Council could

also decide on competition policy and intellectual property rights. It is important to note that these decisions are interrelated and will take effect as soon as they are agreed to.

Where cooperation is concerned, the agreement is wider-ranging and more systematic than that of 1991, including new areas, such as the fight against drugs (on which they had also signed an agreement in October 1996), democratization and human rights, and joint EU-Mexico cooperation with Central America. The agreement also includes a "national security clause," which is a novelty. It states that none of the dispositions of the agreement can become an obstacle to decisions that both parties consider essential to guarantee security in the event of international conflict or grave domestic disturbances, or to enabling them to avoid the diffusion of information contrary to their essential interests. In addition, the clause does not include trade liberalization in the defense sector. Further, the Global Agreement states that the framework for political dialogue and cooperation will remain suspended until decisions on liberalization are finalized. In this way, it ensures that a final agreement will take effect only with all its parts fully operational.

The second document, the Interim Agreement Concerning Trade and Trade Related Issues, allows for the immediate establishment of the Joint Council and the immediate start of negotiations in areas under EU competence, notably goods. The Interim Agreement is applicable when the Global Agreement enters into force. It is also a novelty in EU-Latin American relations and was presented as a form of "fast-track" negotiation (*Europe Information Bulletin* 1997b). Finally, the Joint Declaration on Services and Intellectual Property Matters establishes the terms of negotiation in areas under the competence of the member states.

At a June 1997 meeting of COREPER, which meets before the Council of Ministers convenes, the democracy clause again caused controversy. The final text of the Global Agreement was questioned by all member states except Denmark, Spain, and the United Kingdom. The dissenting group, headed by France, charged that the inclusion of a modified version of the democracy clause violated negotiation guidelines approved by the Council. The "exceptional treatment" accorded Mexico was rejected and the authority of the European Commission challenged. The vice president of the Commission criticized the "double standard" of some member states (a clear reference to France) that demanded of Mexico criteria they neglected to mention in cases such as China (*Europe Information Bulletin* 1997a). For the Mexican delegation, these were "dilatatory tactics" that aimed to conceal the resistance of member states like France to trade liberalization (*Excelsior* 1997c).

To speed up the approval of the agreement by the EU institutions, Mexico made additional concessions and accepted the complete democracy clause, including the reference to "domestic policies," but maintained the unilateral declaration referring to the principles governing its relations with other states. It also made concessions regarding the liberalization of

maritime transportation demanded by Greece and Denmark. It further conceded the "standstill clause," which sets the date for the application of tariff cuts.

The fraud-free election of July 6, 1997, when the PRI lost its majority in Congress and the opposition PRD gained control of the capital, helped to dissolve the last EU hesitations, and the three agreements were finally signed in December 1997. Five negotiating rounds took place until June 1998, and important advances occurred despite the unilateral rise in Mexican tariffs, from 3 percent to 10 percent, after January 1998. The main discrepancies were over rules of origin and market access. The EU demanded free, immediate access for 82 percent of trade, with the gradual liberalization of the remaining 18 percent until the year 2003, when NAFTA parity should be reached. Mexico offered to liberalize 47 percent of trade immediately and 53 percent in three successive stages until full liberalization by the year 2007, alleging that the Mexican private sector resisted a too-rapid liberalization (*El País Negocios* 1999).

The rapid evolution of the negotiations with Mexico contrasts with those of MERCOSUR and Chile. In July 1998 the European Commission passed negotiation guidelines for those talks after heated debate and with the opposition of the Commission's agriculture commissioner, who claimed that opening the EU market to MERCOSUR and Chilean agricultural goods, particularly cattle, wine, and cereals, would imply annual spending of 5,700 to 14,300 million euros, about one-third of the EU's total agricultural budget. The Commission's vice president, however, a strong supporter of the MERCOSUR and Chile agreements, presented other studies showing that only 14 percent of MERCOSUR exports were agricultural goods that were "sensitive" for the EU. He also noted that the costs of the agreements would be widely offset by the increase in EU exports in high added-value items, such as cars, chemicals, services, and high technology products.

Until late June 1999, negotiations were blocked within COREPER by strong resistance from a group of member states, once again headed by France. MERCOSUR stated that it would not participate in any negotiation if the agricultural sector were not included. For MERCOSUR, agriculture is essential; it is the sector most affected by EU trade barriers and the only one that can balance trade relations and reduce the large trade deficit with EU, which in 1997 rose to US\$7.250 million. Just before the EU-Latin American and Caribbean Summit in June 1999, the Council approved a negotiating mandate for trade liberalization with these countries. It is not yet clear, however, how this process will progress. Some observers see it as an imminently political move, designed to present some concrete action at the summit. How the issue of agriculture will be resolved is likewise still unclear.

## CONCLUSIONS AND PERSPECTIVES

Europe and Mexico attempted unsuccessfully to deal with trade and investment and democratization for two decades. The impediments were largely structural factors derived from the North-South relationship and constraints in foreign, trade, and development policies. Mexico was part of the limited, traditional, and asymmetrical model of relationship that the EEC/EU established with other "non-associated" countries in Asia and Latin America. For almost two decades, too, the EEC/EU resisted changing its hierarchy of trade preferences and development policy. Mexico thus maintained its low ranking, and various trade barriers affected its exports. At the same time, European access to natural resources and FDI reform remained taboo subjects in Mexico until the late 1980s, given the country's nationalist foreign policy and development strategy.

Political dialogue was similarly limited. Even when a strong convergence was evident, such as over Central America and Cuba, Europe's emphasis on democratizing the Mexican political system caused disputes and curbed the political agenda. Divergences in this area were accentuated in the late 1980s and early 1990s with Mexico's massive electoral fraud in 1989, the Zapatista revolt, and the social crisis that accompanied liberalization and adjustment. The Mexican authorities justified their defensive attitude with the principle of nonintervention, but in the real cause was the weakening of the PRI and the growing perception of vulnerability in the face of internal and external democratic pressures.

The agreements of 1975 and 1991 were caught up in these difficulties. Although they were "non-preferential" and centered on development cooperation and foreign aid, Mexico wanted the elimination of trade barriers. The EEC/EU response was that the problem was not European protectionism but the lack of diversification of Mexican exports and Mexico's lack of knowledge about and adaptation to the norms and requirements of the European market. This position allowed the EEC/EU to avoid the demands of liberalization and to center on trade promotion activities, such as trade meetings, fairs, and training courses, activities with relatively low costs. Both visions, however, are partially correct. Rather than being mutually exclusive, they are complimentary. In the end, however, as might be expected in an asymmetrical relationship, the European point of view prevailed.

The new Framework Agreement signed in December 1997 appears to mark a break with the model in place since 1975. It calls for a new relationship, including the bilateral gradual and reciprocal liberalization of trade and investment, an institutionalized political dialogue, and a mutual commitment to democracy and human rights. This represents an important change. It seems that the main divergences impeding the deepening of political and economic relations have been put aside. The profound transformations that have taken place over the last few years in the international arena, as well as in the EU and Mexico, have allowed both sides to overcome the historical problems of EU protectionism, Mexican

investment rules, and Mexico's defensive political attitude.

Although the agreement is a new departure, however, it is only a starting point. It defines the principles and terms of political dialogue and the modalities and objectives of trade negotiation. The efficacy of the democratic clause, the real scope of trade liberalization, and, more generally, the utility of the agreement as an instrument for economic and social development and the consolidation of Mexican democracy depend on future negotiations and the scope and intensity of future political dialogue. Mexico could not get the immediate and global free trade agreement it hoped for; but the text signed in December 1997 transcends a fourth-generation agreement like those signed with Chile and the MERCOSUR in the nature of the commitments made, the sectors covered, the extensive decision making capacities given to the Joint Council in liberalization matters, and the dispositions that expressly tie together the three pillars of the agreement: economic cooperation, political dialogue, and trade and investment liberalization.

The negotiation process also revealed existing divergences in the EU with respect to the scope of liberalization. Trade in services implies a complex and difficult negotiation among the 15 member states which has no precedent. The Mexican case is not unique in this respect. Similar difficulties have emerged in relations with other regions and countries, because the EU has still not defined a coherent global policy for external trade liberalization. To what point can concessions be made without incurring too high an economic and political cost? Defining a coherent policy implies revising the relative position of Eastern Europe, the Mediterranean, the ACP countries, and Latin America in the hierarchy of EU preferences, which directly affects the national interests and foreign policy priorities of member states like France, Germany, the United Kingdom, and Spain. Despite the difficulties, the EU will be forced to address this question if it wishes to conduct trade negotiations with credibility and efficacy.

Finally, the debate about the democracy clause and its application has only just begun. The foreseeable advances and setbacks of the Mexican democratization process, the frequent violations of human rights, and Mexico's impunity for such violations indicate that this clause may yet cause problems. It is possible that the new national security clause will become an obstacle for the application of the democracy clause or lessen its efficacy. Other factors can debilitate its credibility and impact. As seen during the negotiation process, the clause could be invoked by some member states to safeguard trade interests. The self-interested use of the clause would have an effect contrary to intentions and could hamper rather than support Mexican democratization.

The negotiation process revealed that the EU and Mexico have different visions about the kind of relationship they want to establish. Mexico wants free trade above all and resents political "interference." The EU wants a relationship with a strong political and social dimension.

Neither side won completely. In this sense, a more balanced model seems to be in place, with a democratic content and some social and political counterweights. Trade liberalization is not sufficient to promote social progress and the consolidation of democracy. The EU's relationship with Mexico, and indeed with the other countries of Latin America, cannot be limited to liberalization or guided simply by a desire to gain market quotas in a global economy. The economic and political conflicts that took place in Mexico between 1994 and 1998 showed the limits of economic liberalization according to the "Washington Consensus." EU-Mexican relations must therefore work to achieve more than this.

Political dialogue and an effective democracy clause must be an essential component of the new model for relations. They should be applied in a reciprocal manner and without double standards or self-interested exceptions to safeguard powerful economic interests. Otherwise there is a risk that the new model of relations with Mexico will be nothing more than a European version of NAFTA tempered by democratic and social rhetoric, as well as development assistance and NGO action. This would weaken the credibility of CFSP, which links the legitimate economic interests of the EU with democracy, human rights, and social progress. In sum, a new relationship must do justice to the ideals that guided the process of integration in Europe.

## **POSTSCRIPT, MARCH 2000**

On November 24, 1999, the trade talks started under the interim agreement a year before were concluded, reaching an agreement to establish an EU-Mexico free trade area. This agreement was officially signed in March 24, 2000, at the Lisbon Summit of the European Council. The Lisbon Declaration about the new EU-Mexico Association, adopted in this meeting by the Mexican president, the EU heads of state and government, and the European Commission, calls for a short ratification process so as to initiate the transition to an EU-Mexico free trade area as early as July 1, 2000.

According to the European Commissioner on Trade, Pascal Lamy, the new free trade agreement can be considered the widest ever negotiated between the European Union and any third country outside Europe, with the sole exception of Israel. It can also be considered a device to balance the strong influence of the United States in the Mexican economy, to restore the traditional market share of European Union exports in Mexico, and to create a better environment for the European Union foreign direct investment (*El País* 1999).

This pact is also remarkable for the unprecedented speed of the negotiation process and the scope of the liberalization. In industrial goods, Mexico has achieved immediate duty-free access to the European market for 80 percent of its exports, and the remaining 20 percent will be fully liberalized between 2003 and 2007. The European Union will have

immediate duty-free access for 60 percent of its exports, and Mexico will gradually cut its tariffs for the remaining 40 percent from 2003 to 2007. Norms of origin -a difficult issue in the trade talks- have been defined on a case-by-case basis. In agriculture, zero-tariff access will prevail, except for a list of sensitive products. A review of the agricultural section of the agreement will take place in 2003. The agreement also provides for a gradual liberalization in services and public procurement beyond the scope of the General Agreement on Trade in Services (GATS). The liberalization will be completed in ten years, and the EU companies will enjoy the same conditions as their NAFTA competitors.

## NOTES

1. This position is based on the so-called Calvo Doctrine of 1868, in which the state cannot accept responsibilities for losses caused to foreigners. This doctrine is expressed in Article 27 of the Mexican Constitution.

2. A paradigmatic case is that of Volkswagen, established in Mexico in 1962, which continued supplying the Mexican market with already obsolete models while producing a new "Beetle" for the U.S. market, both in its factories in Puebla. This factory's enlarged production capacity attracted suppliers like Saint Gobain, the manufacturer of security glass, which has obtained a loan from the European Investment Bank to build a plant in Mexico. BMW and Mercedes Benz also announced new investments in Mexico to expand their presence in the U.S. market.

3. This refers only to Community aid and not to assistance channeled bilaterally by member states.

4. Sentence 1/94 of November 15, 1994, of the Court of Justice of the European Communities, in reference to the agreements of GATT, considers that in accordance with Article 113 of the Treaty of the European Community, the Community can conclude international treaties which encompass the trade of goods, but not the trade of services or the intellectual property rights related to trade. Given that these fourth-generation agreements encompass these questions and extend to CFSP and intergovernmental cooperation, the negotiations have to be conducted jointly by the Commission and the 15 member states in their respective areas of competence.

5. The Federal Electoral Institute issued a resolution recalling that electoral monitoring with external funds does not contradict the Mexican Constitution and favors the transparency of elections. Mexico's final proposal was to channel the grant through governmental institutions. See *La Jornada* 1997; *Excelsior* 1997a; *Proceso* 1997c.

## REFERENCES

- Aldecoa, Francisco. 1995. El acuerdo entre la Unión Europea y el MERCOSUR en el marco de la intensificación de las relaciones entre Europa y América Latina. *Revista de Instituciones Europeas* 22, 3: 761-92.
- Arenal, Celestino. 1993. La Comunidad Europea y América Latina. ¿En los umbrales



- de una nueva etapa? *Sistema* 114-15 (June): 235-53.
- . 1996. El futuro de las relaciones entre la Unión Europea y América Latina en el nuevo escenario mundial. In *Las nuevas relaciones de la Unión Europea con América Latina: comercio, cooperación y desarrollo*. Madrid: Complutense Institute for Latin America. 29-61.
- . 1997. Los acuerdos de cooperación entre la Unión Europea y América Latina (1971-1997): evolución, balance y perspectivas. *Revista Española de Desarrollo y Cooperación* 1 (Fall-Winter): 111-38.
- Armendáriz, Manuel. 1997. Mexican Ambassador to the EU. Author interview. Brussels, February 20.
- Arrieta, Judith. 1996. La política exterior de México hacia la Unión Europea. *Revista Mexicana de Política Exterior* 49 (Winter): 123-48.
- Ashoff, Guido. 1989. La cooperación para el desarrollo entre la Comunidad Europea y América Latina: experiencias y perspectivas. Madrid: IRELA.
- Association of Latin American Integration (ALADO). 1998. Las negociaciones de la Unión Europea y sus relaciones comerciales con la ALADI. Document ALADI/SEC/dt 404. September 9. Madrid: ALADI.
- Auboin, Marc, and Sam Laird. 1997. EU Import Measures and the Developing Countries. Staff Working Paper TPRD-98-001. August 31. Geneva: World Trade Organization.
- Barahona de Brito, Alexandra. 1996. *Beyond Trade: Reinforcing the European Union-MERCOSUL Partnership*. Lisbon: Instituto de Estudos Estratégicos e Internacionais (IEEI).
- Cervantes, Jesús. 1996. Cambio estructural en el sector externo de la economía mexicana. *Comercio Exterior* 46, 3: 175-92.
- Chacón, Mario. 1996. Relaciones económicas entre México y la Unión Europea: evolución reciente. *Revista Mexicana de Política Exterior* 49 (Winter): 159-93.
- Chen, Jorge. 1996. Las relaciones entre México y Europa hoy. *Revista Mexicana de Política Exterior* 49 (Winter): 149-58.
- Council of the European Union. 1994. Europa y América Latina: una cooperación para la acción. Base document. Luxembourg, October 31.
- Durán, Esperanza. 1992. Mexico's Relations with European Communities. Document WP 33-92. Madrid: IRELA.
- Economist*. 1995. Viva Amexica! A Survey of Mexico. October 28: 18-19.
- El Economista* (Mexico City). 1996. El marco de las pláticas no fue muy favorable, dice vocero de la CE. October 16: 9.
- Europe Information Bulletin* (Brussels). 1996a. DE-México: el Consejo remite el expediente del nuevo Acuerdo a los Representantes Permanentes al confirmarse las divergencias en cuanto a la posibilidad de una zona de libre comercio. 3, 695 (February 27): 1.
- . 1996b. DE-México: la posición de negociación aprobada por el Consejo implica que el objetivo final será el libre comercio, aunque quedan por negociar las modalidades y el calendario. 3, 748 (May 20--21): 6.
- . 1997a. DE-México: el Consejo logra un compromiso respecto las directrices de negociación. 3, 995 (June 30--July 1): 12.
- . 1997b. DE-México: Acuerdo global y "vía rápida" para la negociación comercial. 4, 011 (July 24): 9.
- European Commission. 1994. Hacia un fortalecimiento de la política de la Unión Europea respecto de MERCOSUR. Comunicación de la Comisión al Consejo

- y al Parlamento Europeo. COM (94) 428 final. October 19. Brussels: European Commission.
- . 1995a. La profundización de las relaciones entre la Unión Europea y México. Comunicación de la Comisión al Consejo y al Parlamento Europeo. COM (95) 03 final. February 8. Brussels.
- . 1995b. Hacia un fortalecimiento de las relaciones entre la Unión Europea y Chile. Comunicación de la Comisión al Consejo y al Parlamento Europeo. COM (95) 232 final. May 31. Brussels.
- . 1995c. Unión Europea-América Latina. Actualidad y perspectivas del fortalecimiento de la asociación 1996-2000. Comunicación de la Comisión al Consejo. COM (95) 495 final. October 23. Brussels.
- . 1995d. Comunicación de la Comisión al Consejo relativa a la renovación del diálogo de San José entre la Unión Europea y Centroamérica. Comunicación de la Comisión al Consejo y al Parlamento Europeo. COM (95) 600 final. November 29. Brussels.
- . 1995e. Comunicación de la Comisión sobre la inclusión del respeto de los principios democráticos y de los derechos humanos en los acuerdos entre la Comunidad y terceros países. COM (95) 216 final. May 23. Brussels.
- European Commission. Delegation in Mexico. 1995. Informe de evolución de las relaciones DE-México. Mexico City. October.
- European Commission. General Directorate IB (Latin America). 1997. Activités de la Direction Amérique Latine. Rapport Annuel 1996. Brussels, February.
- European Council. 1992. EEC Council Regulation no. 443/92 on assistance to the developing countries of Latin America and Asia. OJ L52. Brussels, February 27.
- . 1996a. Decisión del Consejo del 20 de noviembre de 1995 sobre la aplicación provisional de determinadas disposiciones del Acuerdo Marco Interregional de Cooperación entre la CE y sus Estados miembros, por una parte, y el MERCOSUR y sus Estados miembros, por otra, firmado el 15 de diciembre de 1995. DOCE L 69/1-22. March 19.
- . 1996b. Decisión del Consejo del 18 de junio de 1996 relativa al Canje de Notas entre la Comunidad Europea y Chile sobre la aplicación provisional de determinadas disposiciones del Acuerdo Marco de cooperación destinado a preparar, como objetivo final, una asociación de carácter político y económico entre la CE y sus Estados miembros, por una parte, y la República de Chile, por otra parte, firmado el 21 de junio de 1996. DOCE L 209/1-21. August 19.
- European Parliament. 1994. Resolution of April 22 on economic and trade relations between the European Union and Latin America. OJ C 128 (May 9): 443.
- . 1995. Informe sobre la Comunicación de la Comisión al Consejo y al Parlamento Europeo sobre la profundización de las relaciones entre la Unión Europea y México. COM (95) 03. October 31. Luxembourg: European Parliament.
- . 1998. Recomendación sobre la propuesta de decisión del Consejo relativa a la celebración del Acuerdo interino sobre comercio y cuestiones relacionadas con el comercio entre la Comunidad Europea por una parte, y los Estados Unidos Mexicanos, por otra. COM (97) 0525. April 27. Luxembourg.
- . 1999. Recomendación sobre la propuesta de decisión del Consejo relativa a la celebración del Acuerdo de colaboración económica, coordinación política y cooperación comercial entre la Comunidad Europea y sus Estados

- miembros, por una parte, y los Estados Unidos Mexicanos, por otra. COM (97) 0527. April 22. Luxembourg.
- Excelsior (Mexico City). 1996a. En pos de un acuerdo con la UE. Editorial. October 14. <<http://www.excelsior.com.mx/9610/961014/edi03.htm>>
- . 1996b. Posturas divergentes en el primer encuentro México-DE. October 15: 12. <<http://www.excelsior.com.mx/9710/971012>>
- . 1997a. Preocupante que México frene donativos para la vigilancia de comicios. March 23. <<http://www.excelsior.com.mx/9703/970323/nac26.html>>
- . 1997b. Cláusula democrática con la UE, posible: México. February 5: 1. <<http://www.excelsior.com.mx/9702/970205/exe03.html>>
- . 1997c. Intentan demorar la negociación del acuerdo comercial con la UE. June 25: 1. <<http://www.excelsior.com.mx/9706/970625/exe04.html>>
- González Bejarle, Juan Manuel. 1996. Mexican Trade Adviser, Mexican Embassy, Madrid. Author interview. Madrid, November 15.
- Grabendorff, Wolf. 1991. México y la Comunidad Europea: ¿hacia una nueva relación? In *Relaciones exteriores de México en la década de los noventa*, ed. Riordan Roett. Mexico City: Siglo XXI. 127-64.
- Gurría, José Angel. 1995a. Corrientes de capital: el caso de México. In *Las nuevas corrientes financieras hacia la América Latina. Fuentes, efectos y políticas*, ed. Ricardo Ffrench-Davis and Stephany Griffith-Jones. Mexico City: FCE/CEPAL. 253-93.
- . 1995b. Principios, objetivos y estrategias de la política exterior de México. *Revista Mexicana de Política Exterior* 46 (Spring): 284-301.
- La jornada (Mexico City). 1997. SRE: dinero foráneo a observadores. March 25.
- Klaveren, A. 1994. Europa y América Latina durante los años noventa: las limitaciones del gradualismo. In *Anuario de las Relaciones Europeo-Latinoamericanas 1993*. L-AREW93. Madrid: IRELA. 109-32.
- International Monetary Fund (IMF). 1998. *Directory of Trade Statistics Yearbook*. Washington, DC: IMF.
- Institute for European-Latin American Relations (IRELA). 1995. La nueva Europa y su impacto en América Latina. Dossier 53. Madrid: IRELA.
- . 1996. Foreign Direct Investment in Latin America in the 1990s. Madrid: IREWIADB.
- . 1997. Los acuerdos de tercera generación entre la UE y América Latina: ¿plataforma para un nuevo tipo de cooperación? Madrid. April.
- . 1998a. Preparando la asociación DE-MERCOSUR. Beneficios y obstáculos. INF 98/84-MER. Madrid. November 20.
- . 1998b. La negociación de un acuerdo comercial DE-México. Motivos, costes y beneficios. INF 98/8-Mex. Madrid. December 1.
- . 1999. Chile y la Unión Europea. Perspectivas de asociación. Madrid. January 18.
- Marín, Manuel. 1994. América Latina en Corfú. *El País* (Madrid), July 4.
- Marshall, T. 1996. Foreign Investment in Mexico. Mexico City/Los Angeles: MEXIS Online. <[http://www.flash.net/-mexis/experts/legal\\_marshall\\_O1.html](http://www.flash.net/-mexis/experts/legal_marshall_O1.html)> (October 25).
- Mexico. Secretaría de Comercio y Fomento Industrial. 1996. Programa de Política Industrial y Comercio Exterior. *Comercio Exterior* 46 (6): 489-92.
- Miguel, Francisco de, and Juan Francisco Montalbán. 1996a. Un nuevo modelo de relaciones UE-México 1. *Boletín Económico de Información Comercial*

- Española* 2517 (October 7-13): 23-32.
- . 1996b. Un nuevo modelo de relaciones DE-México II. *Boletín Económico de Información Comercial Española* 2518 (October 14-20): 25-34.
- Moreno, Almudena. 1996. La cláusula democrática en la acción exterior de la Unión Europea. Working Paper. Madrid: University Institute for Development and Cooperation, Complutense University.
- Mujal-León, Eusebio. 1995. Eastern Europe and Latin America. In *Europe and Latin America in the World Economy*, ed. Susan Kaufman Purcell and Françoise Simon. Boulder: Lynne Rienner. 139-72.
- Ojeda, Mario. 1986. *El surgimiento de una política exterior activa*. Mexico City: SEP.
- El País* (Madrid). 1994. La UE renunció a la cláusula democrática en México. January 14: 6.
- . 1996. La UE respalda a México con la firma de un preacuerdo de asociación. May 3: 55.
- . 1999. La Unión Europea y México crean una zona de libre comercio. November 24: 47.
- El País Negocios* (Madrid). 1999. América será un solo mercado. Entrevista a Herminio Blanco, Secretario de Comercio Exterior de México. May 30: 15.
- Pérez Herrero, Pedro. 1997. Las relaciones económicas entre México y la Unión Europea. In *La Unión Europea y México: una nueva relación política y económica*. Madrid: IRELA: 105-48.
- . 1998. Las relaciones económicas México-Unión Europea y las turbulencias financieras del verano del 98. *Meridiano CER/23* (October): 12-17.
- Proceso* (Mexico City). 1996. Entorpeció el Gobierno la visita del Parlamento Europeo al área zapatista. No 1.015 (April 15). <<http://proceso.web.com.mx/protexto/1015/1015n13.html>>
- . 1996b. En peligro, el acuerdo entre México y la Unión Europea. No. 1.041 (October 13). <<http://proceso.web.com.mx/protexto/1015/1015n16.html>>
- . 1996c. Diferencias de "ritmos" y "metodologías" en las negociaciones entre México y la Unión Europea. No. 1050 (December 15). <<http://proceso.web.com.mx/1050/1050n23.html>>
- . 1997a. Protesta la AMDH: impidió el Gobierno a la Unión Europea financiar un proyecto de vigilancia electoral. No 1062 (March 9). <<http://proceso.web.com.mx/1062/1062n12.html>>
- . 1997b. El Parlamento Europeo dará la batalla para otorgar ayuda a la AMDH. No. 1.063 (March 16). <<http://proceso.web.com.mx/1063/1063n15.html>>
- . 1997c. La observación, prioritaria para la consolidación democrática: Cárdenas. No 1.065 (March 30). <<http://proceso.web.com.mx/1065/1065n21.html>>
- Purcell, Susan Kaufman, and Françoise Simon. 1995. The Impact of Regional Integration on European-Latin American Relations. In *Europe and Latin America in the World Economy*, ed. Purcell and Simon. Boulder: Lynne Rienner. 39-84.
- Sanahuja, José Antonio. 1996. *Renewing the San José Dialogue: The Future of Relations Between Central America and the European Union*. London: Catholic Institute for International Relations.
- Santamaría, José Manuel. Director of market promotion in Europe, Mexican Bank of Foreign Trade (Bancomext). Author interview. Madrid, November 15.
- Sberro, Stephan. 1996. La Unión Europea como opción diversificadora: un

- recorrido crítico. *Revista Mexicana de Política Exterior* 49 (Winter): 220-43.
- Sotillo, J. A. 1992. Comunidad Europea-América Latina: límites y posibilidades de las relaciones eurolatinoamericanas. *Sistema* 107: 21-34.
- Torres-Rivas, Edelberto. 1995. La metamorfosis de una relación de amistad: los diez años del proceso de San José. In *Anuario de las relaciones Europeo-latinoamericanas 1994*. Madrid: IRELA. 85-108.